

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6544

BILL NUMBER: SB 279

NOTE PREPARED: Jan 2, 2006

BILL AMENDED:

SUBJECT: State Rainy Day Fund Reserves.

FIRST AUTHOR: Sen. Zakas

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill provides that the amount deposited in the Counter-Cyclical Revenue and Economic Stabilization Fund is calculated on the General Fund revenue deposited in the state General Fund or the Property Tax Replacement Fund. The bill allows money in the Counter-Cyclical Revenue and Economic Stabilization Fund to be transferred to the Property Tax Replacement Fund under certain circumstances.

Effective Date: June 15, 2006; July 1, 2006.

Explanation of State Expenditures: *Rainy Day Fund Balance:* This bill changes the definition of "General Fund revenue" to include all general purpose tax revenue and other unrestricted general purpose tax revenue, including federal revenue-sharing monies credited to the General Fund (GF) and the Property Tax Relief Fund (PTRF). Currently, the definition only includes monies deposited in the General Fund.

This definitional change also affects the formula which directs the transfer of GF revenue into the Rainy Day Fund (RDF) in years where there has been growth in adjusted personal income that exceeds 2%. The amount transferred will now be based on the amount of revenue deposited in both the GF and PTRF. This will increase the amount transferred to the Rainy Day Fund and allow the Fund to accumulate larger balances. This will allow the state to incorporate the significant increase in tax revenue which will be deposited in the PTRF effective with P.L. 192-2002(ss). The maximum balance would be 7% of the total GF and PTRF balances.

The bill also changes the formula which allows transfers from the RDF in years where there has been a negative growth of 2% to include transfers to the GF and PTRF. The amount appropriated to each fund is proportional to the amount needed to balance each fund.

The maximum fiscal year-end Rainy Day Fund balance for FY 2005, along with the current and proposed maximum balances for FY 2006 through FY 2007 (estimated based on the December 14, 2005, *Revenue Forecast*) are presented in the following table:

Fiscal Year	Rainy Day Fund Max Balance @ 7 % of GF (Millions)	Rainy Day Fund Max Balance @ 7% GF & PTRF (Millions)
2005	\$546.5 *	\$804.2
2006	\$557.8	\$824.1
2007	\$586.8	\$868.7
* Actual Fund Balance as of 6/30/2005 was \$316.5 M.		

Background: The Rainy Day Fund was established in 1982 (P.L. 182-1982) with the first transfers to the Fund being in FY 1985. The purpose of the Fund is to allow the state to collect and maintain general purpose tax revenue during periods of economic expansion for use during periods of economic recessions. Two major functions of the Fund are to provide resources for use when the state needs to adjust its expenditures due to revenue shortfalls, and to restrict resources available to the General Fund in expansionary years, which controls expenditure growth.

P.L. 224-2003 and P.L. 246- 2005 (the Budget Bills) provided that if the budget director determines that there are insufficient funds in the General Fund any time during the fiscal year to meet its statutory obligations, the Budget Agency (with approval of the Governor and after review by the Budget Committee) may transfer amounts necessary from the Rainy Day Fund to the GF to maintain a positive balance in the GF. No funds were transferred under this provision in FY 2003, \$44.3 M were transferred in FY 2004, and no funds were transferred in FY 2005. The Fund balance as of June 30, 2005, was \$316.5 M. P.L. 246-2005 also requires the State Budget Agency to transfer \$100 M in the RDF at the end of FY 2007 if there are sufficient GF revenues available.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: State Budget Agency.

Local Agencies Affected:

Information Sources: State Budget Agency, *General Fund, Property Tax Replacement Fund, and Rainy Day Fund Summaries, FY 2005*, July 15, 2005. Revenue Technical Committee, December 14, 2005, *Revenue Forecast*.

Fiscal Analyst: Diane Powers, 317-232-9853.